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(d) Appropriate subelements shall be established for the use of conditioning arrangements. Charges for such subelements shall be assessed and computed as follows:

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(2) Charges for all such subelements shall be designed to produce total annual test period revenues that are equal to the portion of the projected annual test period revenue requirement for Dedicated Transport that has been apportioned to the conditioning arrangements subelements; and

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**§ 69.113 Non-premium charges for MTS-WATS equivalent services.**

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(c) For telephone companies that are not subject to price cap regulation as that term is defined in § 61.3(v) of this chapter, the non-premium charge for the Local Switching element shall be computed by multiplying a hypothetical premium charge for such element by .45. The hypothetical premium charge for such element shall be computed by dividing the annual test period revenue requirement for such element by the sum of the projected premium access minutes for such period and a number that is computed by multiplying the projected test period non-premium minutes for such element ~~for such period~~ by .45. Through June 30, 1993, the non-premium charge shall be computed by multiplying the LS2 charge for such element by .45.

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**§ 69.114 Special access.**

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(b) Charges for all subelements shall be designed to produce total annual test period revenue that is equal to the projected annual test period revenue requirement for the Special Access element.

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**§ 69.116 Universal service fund.**

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(b) The charge shall be computed by the association on a semi-annual basis by dividing one-twelfth equal monthly share of the projected annual test period Universal Service Fund revenue requirement by the total number of common lines presubscribed to interexchange carriers defined in § 69.116(a).\*\*\*

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**§ 69.117 Lifeline assistance.**

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(b) The charge shall be computed by the association on a semi-annual basis by dividing the sum of one-twelfth equal monthly share of the projected annual test period Lifeline Assistance revenue requirement and one-twelfth equal monthly share of the projected annual test period revenue requirement calculated by all telephone companies pursuant to § 69.104(1) by the number of common lines presubscribed to inter-exchange carries defined in § 69.117(a).\*\*\*

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**Subpart C - Computation of Transition Charges**

**§ 69.205 Transitional premium charges.**

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(c) Except for telephone companies subject to price cap regulation, as that term is defined in § 61.3(v) of this chapter, the charge for an LS2 premium access minute shall be computed by dividing the premium Local Switching revenue requirement by the sum of the projected test period LS2 premium access minutes and a number that is computed by multiplying the projected test period LS1 premium access minutes by the applicable LS1 transition factor. For all telephone companies, the charge for an LS1 premium access minute shall be computed by multiplying the charge for an LS2 premium minute by the applicable LS1 transition factor. For telephone companies that are not subject to price cap regulation, as that term is defined in § 61.3(v) of this chapter, the premium Local Switching revenue requirement shall be

computed by subtracting the projected test period revenues from non-premium charges attributable to the Local Switching element from the revenue requirement for each element.

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(e) Transitional premium charges that are computed in accordance with applicable requirements shall be assessed for the Transport element or elements. Such premium charges shall be designed to produce total annual tariff period revenue that is equal to the premium transport revenue requirement. The premium transport revenue requirement shall be computed by subtracting projected test period revenues from non-premium charges attributable to the Transport element or elements from the revenue requirement for such element or elements.

#### **Subpart D - Apportionment of Net Investment**

##### **§ 69.301 General.**

(a) For purposes of computing annual test period revenue requirements for access elements net investment as defined in § 69.2(z) shall be apportioned among the interexchange category, the billing and collection category and access elements as provided in this Subpart. Expenses shall be apportioned as provided in Subpart E of this Part.

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#### **Subpart F - Segregation of Common Line Element Revenue Requirement**

##### **§ 69.501 General.**

(a) Any portion of the Common Line element annual test period revenue requirement that is attributable to long term support or transitional support shall be assigned to the Carrier Common Line element.

(b) Any portion of the Common Line element annual test period revenue requirement that is attributable to CPE investment or expense or surrogate CPE investment or expense shall be assigned to the Carrier Common Line element or elements.

(c) Any portion of the Common Line element annual test period revenue requirement that is attributable to customer premises wiring included in IOT investment or expense shall be assigned to the Carrier Common Line element or elements.

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(e) Any portion of the Common Line element revenue requirement that is not assigned to Carrier Common Line elements pursuant to paragraphs (a), (b), (c) and (d) of this section shall be apportioned between End User Common Line and Carrier Common Line pursuant to § 69.502. Such portion of the Common Line element annual test period revenue requirement shall be described as the base factor portion for purposes of this Subpart.

#### **Subpart G - Exchange Carrier Association**

##### **§ 69.606 Computation of average schedule company payments.**

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(b) The association shall submit a proposed revision of the formula for each annual tariff period subsequent to December 31, 1986, or certify that a majority of the directors of the association believe that no revisions are warranted for such period on or before December 31 of the preceding year.

##### **§ 69.611 Effect of optional alternative carrier common line tariff provisions and end user common line surcharges.**

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(c) The Carrier Common Line residue that is computed pursuant to § 69.605 shall be increased by adding an amount that is computed by subtracting the Carrier Common Line revenues attributable to study areas with Alternative Carrier Common Line tariff provisions from the projected test period Carrier Common Line revenues for such study areas that would have been received at the association Carrier Common Line rate.

(d) The Carrier Common Line resident distribution that is computed pursuant to § 69.607 shall be reduced for a company that has effective Alternative Carrier

Common Line tariff provisions by subtracting an amount that is computed by subtracting the Carrier Common Line revenues attributable to such company's study area or areas with Alternative Carrier Common Line tariff provisions from the projected test period Carrier Common Line revenues for such study area or areas that would have been received at the association Carrier Common Line rate.

SUPPLEMENT TO PROPOSAL  
OF THE  
UNITED STATES TELEPHONE ASSOCIATION

On  
Small and Midsize Telephone Company  
Regulatory Reform

May 1, 1992

## SUPPLEMENT TO PROPOSAL

On March 6, 1992, the United States Telephone Association (USTA) submitted a Proposal for small and midsize telephone company regulatory reform. Among other features, the Proposal included an optional Alternative Incentive Regulation (AIR) plan which is designed to provide efficiency incentives and regulatory streamlining for non-price cap local exchange carriers (LECs).

Limited pricing flexibility is an important feature of the AIR plan. Under this feature, a carrier may increase a rate up to 10 percent over each two-year tariff period. A rate increase, however, must have no cumulative revenue impact based on historical demand as measured within one of three rate groupings: common line, traffic sensitive-switched, and traffic sensitive-special. At the end of each two-year period, a rate adjustment factor reflecting historical changes in revenue requirement and demand would be applied to each rate grouping on a composite basis so that the overall rate level of each grouping would be no greater than the new demand-weighted revenue requirement. Individual rates within a grouping could be changed up to the percentage change in the grouping's factor, plus the 10 percent rate flexibility feature which would be restored at the start of each new two-year tariff period.

The purpose of this supplement is to propose an extension of the AIR plan's pricing flexibility feature to tariff filings made

by the National Exchange Carrier Association (NECA) and non-pooling LECs pursuant to Section 61.38 of the Commission's rules (the "baseline" under USTA's Proposal). In its Proposal (at p. 15), USTA stated that "ideally, pricing flexibility would apply to all non-price cap LECs regardless of the tariff filing option they elect." USTA initially proposed limited pricing flexibility for only AIR plan participants, however, because of the need to resolve a number of interrelated issues (including Part 69 reform, expanded local network interconnection and separations changes) before broad-based pricing flexibility could be extended to all LECs. While these issues must still be resolved, USTA believes that the AIR plan's pricing flexibility feature can, and should, be made available on an optional basis to baseline tariff filings during the interim period before all LECs are afforded expanded pricing flexibility.

Under USTA's amended Proposal, NECA or a LEC filing under Section 61.38 may elect to apply the AIR plan's pricing flexibility feature to its tariffed rates subject to the following modifications. First, pricing flexibility would apply only to rates in the traffic sensitive-switched and traffic sensitive-special rate groupings. Pricing flexibility would not apply to common line rates in order to preserve the current long-term support calculations for NECA pool participants.



Second, pricing flexibility would apply over the baseline plan's one-year tariff period, instead of the Air plan's two-year period. During the one-year period, rates could be increased by 5 percent, rather than by the AIR Plan's 10 percent, so long as there is no cumulative revenue impact based on prospective test period demand as measured within either the traffic sensitive-switched or traffic sensitive-special rate grouping as may be applicable. At the end of the one-year period, the 5 percent pricing flexibility feature would be restored for the next one-year tariff period unless the carrier elects certification in lieu of a tariff filing as USTA has proposed under the baseline plan.

Extension of pricing flexibility to baseline tariff filings will yield several significant benefits, especially to the NECA pools. It will allow NECA to reflect, at least in part, overall industry pricing trends in the pools' rate relationships. This will promote pool neutrality, an important objective of USTA's Proposal, by decreasing the likelihood that LECs will depool for non-economic reasons, and by facilitating pool reentry by eligible LECs which elect out of the AIR plan and convert back to baseline regulation.

Extending limited pricing flexibility to baseline tariff filings will also help pooling carriers respond, on an aggregate basis, to competitive market forces. Further, end-of-period rate

development by baseline LECs under pricing flexibility will utilize the same rate adjustment factors prescribed by the AIR plan. This should simplify the preparation of tariff filings by these LECs and should significantly ease the burdens on the FCC during the tariff review process.

In sum, inclusion of pricing flexibility in the baseline will help achieve the Commission's regulatory reform objectives. It can be accomplished with little further modification to the Commission's existing rules. For the Commission's convenience, the recommended rule changes to Sections 69.1 and 69.3 that would permit pricing flexibility in the baseline are attached hereto.

Attachment

SUPPLEMENT TO  
RULE CHANGES IMPLEMENTING  
USTA PROPOSAL ON REGULATORY REFORM FOR  
SMALL AND MIDSIZED TELEPHONE COMPANIES

The following recommended changes to §§ 69.1 and 69.3 of the Commission's rules are necessary to implement pricing flexibility in the baseline plan. These changes are in addition to those previously proposed for these sections.

§ 69.1 Application of Access Charges

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(b) Except as provided § 69.1(c), (d), (e) and (f), charges for such access services shall be computed, assessed and collected and revenues from such charges shall be distributed as provided in this Part. Access service tariffs shall be filed and supported as provided under Part 61 of this chapter, except as modified herein.

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(f) Except as otherwise provided in this paragraph, the provisions of this part shall not apply to the extent that a local exchange carrier, filing a tariff pursuant to § 61.38, elects to change the level of charge for any rate contained in the rate groupings defined by § 61.50(g)(2)(ii) or (iii) of these rules. In the event of such election, the carrier shall comply with the provisions of § 61.50(g)(1) and (2), except that the tariff period shall be the annual period specified by § 69.3(a) of this part, and the level of charge for any individual rate element shall not increase by more than five percent from its initial level over the tariff period.

§ 69.3 Filing of access service tariffs.

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(j) An annual tariff for access service submitted with the supporting information required by § 61.38, may remain in effect for an additional annual period if an officer of the local exchange carrier, with personal knowledge of the relevant facts, elects to certify no later than 90 days prior to the end of any annual period, in a form prescribed by the Commission, that the rates then in effect are projected to earn no greater than the exchange carrier rate of return during the next annual period. A carrier may not certify pursuant to this section and also make an election under § 69.1(f) of this part for the period to which the certification applies.

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